



Opportunities For Learning  
Public Charter Schools

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MEMORANDUM

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**TO:** ADVISORY COMMISSION ON CHARTER SCHOOLS *h*  
**FROM:** JOHN HALL, PRESIDENT—OPPORTUNITIES FOR LEARNING-HERMOSA BEACH PUBLIC CHARTER SCHOOLS  
**SUBJECT:** REQUEST FOR MITIGATING CIRCUMSTANCES FOR SB740 FUNDING DETERMINATIONS  
**DATE:** 1/31/2011

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This memo outlines Opportunities For Learning-Hermosa Beach Public Charter Schools' request for funding and operational flexibility through the "reasonable basis" provisions provided for in the regulations that govern the nonclassroom-based funding determination process.

Opportunities For Learning Public Charter Schools appreciate the opportunity to request these mitigating circumstances that have resulted from the recent budget cuts due to the State's economic crisis. During the pendency of the budget crisis, Opportunities For Learning-Hermosa Beach Public Charter School would be deemed to have met the requirements for eighty-five percent funding under the funding determination process providing they meet the below criteria in lieu of the ones currently specified by law. The "reasonable basis" would be deemed to exist until such time as funding for the Charter General-Purpose Grant and Categorical Block Grants return to levels specified in statute and confirmed by the ACCS.

Charter School Name	Charter School Number	Current Funding Level
Opportunities For Learning – Hermosa Beach	1130	85%

**Circumstance:**

The schools face great uncertainty of further funding cuts for the 2011-12 school year, and it is generally understood and recommended that California's charter schools anticipate a budget cut of 6.10%. The deferred payments of ADA, Supplemental and P2 adjustments account for 25.00% of the schools' total revenue which is deferred until the next fiscal year, an increase from the 22.80% deferral in the prior years. Educational support organizations including, the CSDC School Services and the Department of Finance advised charter schools to develop a "two-track" budget proposal for the 2011-12 school year, one based on the Governor's flat funding proposal and the second track based on an approximate budget cut of 6.10%, creating a total budget cut of approximately 14.00% since 2008. The unpredictable nature of the state's budget also creates uncertainty of possible retroactive budget cuts. For example, schools were not informed until July 2009, that the expected 8% cut, would actually be only 2.6%, which created a 5.4% variance in total funding for the 2008-09

school year creating structural uncertainties relative to whether or not certificated and instructional thresholds could be met because of the 5.4% variance in total funding for a school fiscal year which had already closed. These structural uncertainties and deferred payments from the state delays the information required to complete and submit the schools' audited financials by approximately 6 months after the June close of the fiscal year. This resulted in the schools not knowing if they had met their certificated and instructional "thresholds" until half way through the following year.

The school determined that a 35% expend rate for certificated staff compensation would be the amount of flexibility needed due to the approximate 14.00% funding cuts the school received since 2008. We have reviewed all expenses and recognized certain fixed costs such as rent, maintenance and utilities remained relatively constant. Our relief would need to be from the variable certificated and instructional costs. The Charter School calculated a 12.5% reduction of certificated and instructional expenses would be sufficient. The school is requesting to maintain this relief for the new funding determination request for the fiscal year 2011/2012 for the duration of the funding determination approval.

40%	Current Certificated Spending Requirement
(5%)	Less Reduction of 12.5% (40% times 12.5%)
35%	New Certificated Spending Requirement

The school determined that a 61.25% expend rate for instructional compensation would be the amount of flexibility needed due to the approximate 14.00% funding cuts the school received since 2008. We have reviewed all expenses and recognized certain fixed costs such as rent, maintenance and utilities remain relatively constant. Our relief would need to be from the variable certificated and instructional costs. The Charter School calculated a 12.5% reduction of certificated and instructional expenses would be sufficient. The school is requesting to maintain this relief for the new funding determination request for the fiscal year 2011/2012 for the duration of the funding determination approval.

70%	Current Instructional Spending Requirement
(8.75%)	Less Reduction request of 12.5% (70% times 12.5%)
61.25%	New Instructional Spending Requirement

The Charter School also requested to increase the reserve limit to 10% of the expenses in order for the Charter School to build a prudent reserve while experiencing funding cuts and payment delays. A 10% cash reserve over a 12 month fiscal calendar is a 1.2 month reserve which is necessary because of the significant delay in funding

Opportunities For Learning-Hermosa Beach has opened 5 new locations in the past three years, and is in the process of opening an additional 2 locations during the school year 2011-12, and as a non-classroom based program, OFL-Hermosa Beach is ineligible for Proposition 39 funding. Since 2009, Opportunities For Learning-Hermosa Beach has grown by 599 ADA. This increase directly impacts the facilities of the Charter Schools, as they must ensure adequate room is available for the student population growth. Each new center has an initial opening start-up cost of \$250K-\$300K with additional monthly costs for the first year. The breakeven duration of a center is approximately 2 – 3 years.

Opportunities For Learning-Hermosa Beach success in assisting students in graduation has been remarkable. OFL-Hermosa Beach graduated 21 students during the 2009-10 school year with a projected total of 100 graduates in the 2010-2011 school year with a 69% socioeconomically disadvantaged student population (see attached). OFL-Hermosa Beach received a 2010 Growth API score of 732 and is ranked well within Jack O'Connell's selection of Model Continuation High

Schools (see attached). OFL-Hermosa Beach met 4 out of 4 categories for AYP (Adequate Yearly Progress).

A recent study by Dr. James Catteral, Professor at the Graduate School of Education and Information, University of California at Los Angeles focuses on benefits and costs of recovering school dropouts through societal, individual and various public services. Based on annual numbers of actual graduates, the benefit-cost ratio of dropout recovery through this charter school returns \$4,000 for every \$1,000 invested.

### **Relief**

- **Spending on instructional costs**—Opportunities For Learning-Hermosa Beach Public Charter Schools would be required to direct at least 61.25 percent of their expenditures on “instruction and related services” whereas current law requires spending at a 70 percent level for 85 percent funding. Opportunities For Learning Public Charter Schools would have the option of averaging expenditures over any two consecutive years, that includes the current fiscal year and either the prior or successive fiscal year period to comply with expenditure requirements.
- **Spending on certificated staff compensation**— Opportunities For Learning-Hermosa Beach Public Charter Schools spending on certificated staff compensation would be required to direct at least 35 percent of their expenditures toward eligible certificated staff costs whereas current law requires spending at a 40 percent level for 85 percent funding. To comply with the expenditure requirement, schools would have the option of averaging expenditures over any two consecutive years, that includes the current fiscal year and either the prior or successive fiscal year period to comply with expenditure requirements.
- **Reserves**— Opportunities For Learning-Hermosa Beach Public Charter Schools would be permitted to establish and maintain budget reserves for economic uncertainty at a level of 10 percent of budgeted expenditures whereas current law establishes a 5 percent reserve threshold. This level of reserve would permit a modest degree of additional flexibility to enable the schools to establish more prudent reserves and to more readily “smooth” the impact of budget changes over a multi-year period.
- **One-time funding sources excluded**—when calculating the above spending targets and reserve thresholds, schools would be permitted to exclude “one-time” funding sources (e.g., federal stimulus funding).
- **Coping with cash flow deferrals**—for funding determination purposes, Opportunities For Learning-Hermosa Beach Public Charter Schools would be permitted to book the receipt of deferred state funding on either an accrual or cash basis. Thus, schools would ultimately be required to still meet the expenditure targets specified above, but could defer booking of income into the year when the cash is actually received.

### **Circumstance:**

Opportunities For Learning-Hermosa Beach Public Charter Schools, in recent years, have experienced an increased number of students looking for alternative schooling options. In our current economy, there has been an additional influx of students who are working full time to support their families. Due to this increase, Opportunities For Learning-Hermosa Beach Charter Schools have expanded their services, added new programs, expanded their hours of operations to

include Saturday and night school and acquired new facilities. However, the funding cuts and deferred payments have placed a huge strain on the schools' ability to meet the increasing demand of the at-risk population of dropouts. In addition, the State of California has added a significant burden to charter schools when opening or expanding a location. This requirement, a "Conditional use Permit" is administered by each local municipality and has added additional time of approximately 6 months and increased costs by approximately 30% for each additional location.

Opportunities For Learning – Hermosa Beach has experienced an ADA growth of 489% since September 2009. The additional growth has increased the Charter school's required spending for Certificated Staff and Instructional costs as outlined by SB740. To provide the flexibility that is needed due to the approximate 14.00% funding cut from the State since 2008, and the 3-6 month delay in State funding payments, the Charter School requests the reserve limit to be increased to 10%. This increase will also allow the Charter School to provided relief in the certificated staff and instructional costs for economic uncertainties and future growth due to the increased at-risk student population. The 10% cash reserve over a 12 month fiscal calendar is a 1.2 month reserve which is necessary because of the significant delay in funding.

### Relief

- **Allowable facilities expenditures**— Opportunities For Learning Public Charter Schools would be given an additional option to count up to 60 (sixty) percent of their facilities costs as "instruction and related services" costs toward the above-referenced 61.25 percent spending target for instruction and related costs. The simple 60 percent formula proposed here would be an optional, alternative method that could be chosen in lieu of the existing facilities formula (schools would choose one of the two methods but could not combine them).

Given the unprecedented magnitude of the funding cuts and cash deferrals, and given the unstable and unpredictable nature of charter school funding streams, the above request represents a modest and reasonable adjustment to the pre-existing requirements for Opportunities For Learning-Hermosa Beach Public Charter Schools to qualify for 85 percent funding under the funding determination process. We hope, the flexibility proposed here will strike a reasonable balance between the state's desire to ensure that Opportunities For Learning-Hermosa Beach Public Charter Schools' funds are directed primarily for the benefit of students while still permitting a reasonable degree of flexibility and stability in an otherwise chaotic budgetary environment.